

Message Text

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ACTION AID-59

INFO OCT-01 NEA-10 IO-14 NSC-05 IGA-02 L-03 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 USIA-15
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00
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FM AMEMBASSY ABIDJAN
TO DEPT OF TREASURY WASHDC
AMEMBASSY OUAGADOUGOU
INFO SECSTATE WASHDC 6853

UNCLAS SECTION 1 OF 2 ABIDJAN 0234

DEPT PASS NAC AGENCIES

E.O. 11652: N/A
TAGS: AFDF, AFDB, EFIN, EAID
SUBJECT: PROPOSED AFDF LOAN TO FINANCE UPPER VOLTA ROAD

SUMMARY: AFRICAN DEVELOPMENT FUND (AFDF) MANAGEMENT PROPOSES 6.5 MILLION FUND UNIT OF ACCOUNT (FUA EQUAL TO US DOLLAR 1.11) LOAN TO GOVERNMENT OF REPUBLIC OF UPPER VOLTA TO FINANCE PORTION OF 188 KM ROAD LINKING DORI TO DJIBO IN THE SAHEL REGION OF UPPER VOLTA. PROJECT ALSO INCLUDES CONSTRUCTION OF A DAM NEAR THE BOUKOUMA ROAD. TOTAL COST OF PROJECT EQUAL TO 10.5 MILLION FUA TO BE CO-FINANCED WITH GOUV. QUESTION ECONOMIC VIABILITY OF PROJECT. REQUEST COMMENT OF AMEMBASSY OUAGADOUGOU AND NAC GUIDANCE. END SUMMARY.

1. AFDF DOCUMENT BD/78/03 AND ATTACHMENTS DESCRIBING LOAN POUCHED NAC AGENCIES JANUARY 4, 1978. BOARD CONSIDERATION SCHEDULED FOR JANUARY 24, 1978.

2. AFDF MANAGEMENT PROPOSES 6.5 MILLION FUND UNIT OF ACCOUNT LOAN
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TO GOUV TO FINANCE 62 PERCENT OF COST OF PROJECT INCLUDING A) CONSTRUCTION OF A 188 KM TWO-LANE MODERN EARTH ROAD LINKING DORI TO DJIBO (7.8 MILLION FUA), B) CONSTRUCTION OF A SMALL MOUNTAIN DAM ALONG THE BOUKOUMA ROAD (250 THOUSAND FUA), AND C) INSPECTION AND SUPERVISION OF CONSTRUCTION (470 THOUSAND FUA). AFDF FINANCING TO MEET ALL FOREX COSTS TOTALING 5 MILLION FUA AND 1.50 MILLION FUA IN LOCAL COSTS&. GOUV TO MEET REMAINDER OF LOCAL COSTS EQUAL TO 4 MIL-

LION FUA. ALLOWANCE FOR PHYSICAL CONTINGENCIES IS FIVE PERCENT; PRICE ESCALATION 20 PERCENT. AFDF LOAN TO BE DISBURSED OVER TWO YEAR PERIOD COMMENCING APRIL 1978. PROCUREMENT TO BE UNDER AFDF INTERNATIONAL BID PROCEDURES. PROPOSED TERMS 50 YEARS AMORTIZATION INCLUDING TEN YEARS GRACE, 0.75 PERCENT SERVICE CHARGE. GOVERNMENT OF UPPER VOLTA TO BE BORROWER, MINISTRY OF PUBLIC WORKS TO BE EXECUTING AGENCY.

3. IN VIEW OF DIFFICULTIES ENCOUNTERED IN TRANSPORTING SUPPLIES TO THE POPULATION IN THE SAHEL REGION DURING THE LAST DROUGHT, THE GOUV REQUESTED THAT THE AFDF FINANCE ROAD TRANSPORT STUDIES IN THE COUNTRY'S AFFECTED AREAS. IN MARCH OF 1974, AN AFDF MISSION AND GOUV DESIGNATED THE CONSTRUCTION OF THE DORI-DJIBO ROAD LINK AS A PRIORITY MEASURE TO OPEN THE REGION FOR SOCIAL AND ECONOMIC DEVELOPMENT. THE DORI-DJIBO ROAD REPRESENTS THE ONLY EAST-WEST ROAD IN THE REGION. IN JUNE OF 1974, AFDF APPROVED THE FINANCING OF A STUDY FOR THE CONSTRUCTION OF SUCH A ROAD. THE BELGIAN CONSULTING FIRM OF SEGTRACO COMPLETED THE STUDY IN APRIL OF 1977. THE AFDF PROJECT APPRAISAL REPORT IS BASED LARGELY ON THAT STUDY.

4. THE EXISTING ROUTE BETWEEN DORI AND DJIBO, THE TWO MAIN CENTERS OF THE REGION, CONSISTS OF AN IMPROVISED TRACK APPROXIMATELY 200 KM LONG. THIS ROUTE IS DIFFICULT TO TRAVEL IN THE DRY SEASON, AND DURING THE RAINY SEASON, IT IS IMPASSABLE. THE CONDITION GENERALLY REFLECTS THE ROAD SITUATION IN THE ENTIRE REGION, AND AS A RESULT IT IS EXTREMELY DIFFICULT TO TRANSPORT GOODS AND PASSENGERS IN THE UNCLASSIFIED

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SAHEL REGION. THE PROPOSED ROAD WILL BE 188 KM LONG AND IN ADDITION TO SERVING DORI AND DJIBO, IT WILL PROVIDE A DEGREE OF SERVICE TO THE TONGOMAGEL, BELEHEDE, ARIBINDA, BOUKOUMA AND OULPHON-ALPHA POPULATION CENTERS. IT WILL BE AN EMBANKED SURFACE (20 CM AVERAGE ELEVATION), WITH A 7 M. PLATFORM. THE SURFACE LAYER WILL BE 6 M. WIDE AND APPROXIMATELY 15 CM. THICK. THE PROPOSED ROUTE CONTAINS NO BRIDGES, BUT APPROPRIATE DRAINAGE STRUCTURES WILL BE PROVIDED. THE APPRAISAL REPORT ESTIMATES THAT WITH PROPER MAINTENANCE, THE PROPOSED ROAD WOULD MEET THE AREAS TRAFFIC REQUIREMENTS FOR A PERIOD IN EXCESS OF 20 YEARS FROM DATE OF COMPLETION. THE GOUV HAS ELECTED TO COMBINE CONSTRUCTION OF THE ROAD WITH THE CONSTRUCTION OF A SMALL DAM AT BOUKOUMA. THE DAM WHICH WOULD PROVIDE A STORAGE CAPACITY OF 2.5 MILLION CUBIC METERS, WILL BE USED MAINLY FOR PROVIDING WATER FOR LIVESTOCK CONSUMPTION POINTS.

5. THE POPULATION IN THE UPPER VOLTA SAHEL REGION IS ESTIMATED AT 350 THOUSAND. THE POPULATION IN THE DORI-DJIBO SECTORS DIRECTLY IN THE PROJECT IMPACT AREA IS ESTIMATED AT 230 THOUSAND. POPULATION GROWTH RATE IS 1.7 PERCENT. TRADITIONAL LIVESTOCK RAISING IS THE MAIN ECONOMIC ACTIVITY OF THE SAHEL REGION. LIVESTOCK ACTIVITY IS CHARACTERIZED BY HIGH YOUNG ANIMAL MORTALITY, LOW PRODUCTION, AND LOW MARKETING. IT IS ESTIMATED THAT CATTLE SALE REVENUES ARE EQUAL

TO U.S. \$25 PER CAPITA INHABITANT. INADEQUATE FOOD SUPPLY IS

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FM AMEMBASSY ABIDJAN

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AMEMBASSY OUAGADOUGOU

INFO SECSTATE WASHDC 6854

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DEPT PASS NAC AGENCIES

THE PRINCIPLE FACTOR LIMITING INCREASED PRODUCTION. AGRICULTURE IS A SUBSISTENCE ACTIVITY INVOLVING MAINLY CEREALS WHOSE PRODUCTION IS ESTIMATED AT 40,000 TONS PER YEAR. THE REGIONAL DEFICIT IS 10,000 TONS PER YEAR. THE GOVERNMENT HAS ESTABLISHED CEREAL SELF-SUFFICIENCY AS A MAJOR OBJECTIVE IN THE REGION. THE GOVERNMENT HOPES TO EVENTUALLY MAKE THE SAHEL REGION THE MAIN LIVESTOCK BIRTH CENTER WITH FATTENING TO BE CARRIED OUT IN THE SOUTH AND SOUTH-WEST OF THE COUNTRY.

6. THE GOVERNMENT IS SEEKING IMPLEMENTATION OF THE PROJECT AS AN INITIAL STEP IN FACILITATING GOVERNMENT ADMINISTRATION, LIVESTOCK AND AGRICULTURAL IMPROVEMENT, DEVELOPMENT OF COMMERCE AND PROVISION OF SOCIAL SERVICE. THE APPRAISAL REPORT INDICATES THAT BETWEEN 1978 AND THE YEAR 2000, GOUV HOPES TO CHANNEL AN ADDITIONAL 52 MILLION FUA INTO A SERIES OF UNDEFINED AGRICULTURAL AND LIVESTOCK DEVELOPMENT PROGRAMS IN THE REGION. THE GOALS OF SUCH PROGRAMS WOULD BE TO ACHIEVE REGIONAL CEREAL SELF-SUFFICIENCY AND THE RESULTING INCREASE IN MARKETABLE LIVESTOCK PRODUCTION. IN ADDITION TO ASSISTING THE ACHIEVEMENT OF THESE GOALS, THE PROPOSED ROAD WOULD ALLEVIATE THE SEVERE PROBLEM IN PROVIDING DISASTER RELIEF AS

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EXPERIENCED DURING THE LAST DROUGHT.

7. DATA ON TRAFFIC MOVEMENT ON THE DORI-DJIBO ROAD IS NOT AVAILABLE. THE REPORT INDICATES THAT "THERE ARE VERY FEW VEHICLES IN THE REGION AND THESE BELONG TO THE LOCAL GOVERNMENT DEPARTMENTS. THEY CANNOT NUMBER MORE THAN A FEW DOZEN." HOWEVER, BASED ON SURVEYS OF NORTH-SOUTH ROADS IN THE REGION, THE APPRAISAL REPORT ASSUMES THAT THE DAILY VOLUME ON THE DORI-DJIBO AXIS IS CURRENTLY SEVEN VEHICLES. THE REPORT ESTIMATES INDUCED TRAFFIC WILL AMOUNT TO THREE VEHICLES PER DAY. THEREFORE, UPON COMPLETION OF THE PROJECT, TRAFFIC VOLUME WILL TOTAL TEN VEHICLES PER DAY. THE REPORT PROJECTS AN ANNUAL INCREASE OF 7 PERCENT PER YEAR.

8. THE APPRAISAL REPORT ESTIMATES THAT THE FIVE-YEAR MAINTENANCE COST OF THE PROPOSED ROAD WILL TOTAL 1.2 MILLION FUA. THE REPORT ALSO INDICATES THAT "NATIONAL ROAD MAINTENANCE HAS RECEIVED LESS ATTENTION IN RECENT YEARS AS A RESULT OF INADEQUATE CREDIT ALLOCATIONS." BETWEEN 1971, AND 1976, REGULAR MAINTENANCE DROPPED BY 30 PERCENT. THE REPORT INDICATES THAT AN ANNUAL EXPENDITURE OF 3.7 MILLION FUA IS REQUIRED TO MAINTAIN THE PRESENT STATE OF THE NATIONAL ROADS "AND PREVENT FURTHER DETERIORATION OF THE NETWORK," AND THAT THE GOVERNMENT PLANS TO ALLOCATE ONLY 3.5 MILLION FUA PER YEAR DURING THE 1978-79 PERIOD.

9. THE PROJECTS INTERNAL RATE OF RETURN IS ESTIMATED FROM A NEGATIVE RATE ON UP TO A RATE OF 11.5 PERCENT DEPENDING UPON ASSUMPTIONS MADE: A) GIVEN CURRENT REGIONAL ECONOMIC CONDITIONS AND WITH TRAFFIC USAGE OF 10 VEHICLES PER DAY, THE RETURN IS NEGATIVE. B) ASSUME AVERAGE TRANSPORTATION COSTS IN UPPER VOLTA ARE 30 PERCENT HIGHER ON THE DORI-DJIBO AXIS (GIVEN CURRENT ROAD CONDITIONS) AND PROJECT TRAFFIC OF 10 VEHICLES PER DAY WITH 7 PERCENT ANNUAL INCREASE

, THE IRR WOULD BE ONE PERCENT. C) ASSUME A TOTAL INVESTMENT IN THE UNCLASSIFIED

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REGION OF 62.5 MILLION (PARA 5) RESULTING IN REGIONAL CEREAL SELF-SUFFICIENCY, AND 30 PERCENT INCREASE IN ADDED LIVESTOCK VALUE. IF ROAD COSTS WERE CONSIDERED PART OF THE PROPOSED AREA DEVELOPMENT SCHEME AND OVERALL SCHEME ATTAINED ABOVE MENTIONED GOALS, IRR OF INTEGRATED DEVELOPMENT PROJECT WOULD BE 11.5 PERCENT.

10. COMMENT: FROM THIS VANTAGE POINT, IT APPEARS DIFFICULT TO JUSTIFY CONSTRUCTION OF THE PROPOSED ROAD ON THE GROUNDS THAT IT WOULD ASSIST IN THE ECONOMIC DEVELOPMENT OF THE REGION. SINCE THE MEANS OF ACHIEVING THE DIFFICULT GOALS OF CEREAL SELF-SUFFICIENCY AND THE DEVELOPMENT OF A CATTLE INDUSTRY REMAIN UNDEFINED. IT ALSO APPEARS UNLIKELY THAT THE ROAD COULD BE MAINTAINED IF IT WERE BUILT. GIVEN THE GEOGRAPHIC LOCATION, WITHOUT ADEQUATE MAINTENANCE, THE

LIFE OF THE PROJECT WOULD BE BRIEF. THERE IS ALSO LITTLE TO INDICATE THAT TRAFFIC VOLUME WILL EVER REACH A LEVEL WHICH WOULD JUSTIFY THE INVESTMENT. GIVEN CURRENT PROSPECTS AND CONDITIONS, AS DESCRIBED IN THE APPRAISAL REPORT, EVEN A ONE PERCENT INTERNAL RATE OF RETURN FOR THE PROJECT MAY BE OVERLY OPTIMISTIC. U.S. ALTERNATE DIRECTOR HAS INFORMALLY EXPRESSED THESE RESERVATIONS TO MANAGEMENT AND OTHER MEMBERS OF BOARD.

11. ACTION REQUESTED: WOULD APPRECIATE IF OUAGADOUGOU WOULD PROVIDE WASHINGTON (INFO ABIDJAN) WITH ANY VIEWS ON PROPOSED PROJECT TO ASSIST NATIONAL ADVISORY COUNCIL DELIBERATIONS ON U.S. BOARD POSITION. YOUR VIEWS WILL ALSO ASSIST U.S. ALTERNATE DIRECTOR IN PRESENTING U.S. POSITION TO AFDF BOARD OF DIRECTORS.
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